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SUBJECT: POVERTY IN PAKISTAN: WHOSE NUMBERS ARE RIGHT?

¶1. (SBU) Summary: Pakistani government officials frequently cite poverty alleviation as one of President Musharraf's key economic legacies. However, economic analysts frequently dispute the Government of Pakistan's (GOP) statistics. Separate studies conducted by the GOP and the World Bank indicate different estimations of the decline in poverty in Pakistan from 2000 to 2005, from which the most recent comprehensive poverty data dates. While both studies conclude that poverty decreased during the period in question, World Bank estimates point to a decline in poverty from 34.46 percent of the population to 28 percent, less than the GOP's estimation of a decrease in poverty from 34.46 to 23.94 percent. World Bank data is likely more accurate and paints a more balanced view of the GOP's track record on poverty alleviation.

¶2. (SBU) Summary continued: A real concern is that approximately 50 percent of Pakistan's population (80 million people) is clustered around the poverty line. Income inequality has risen during the period and, coupled with gender disparity in employment and access to education, will continue to represent a significant challenge to the GOP's poverty alleviation campaign. End Summary.

Poverty alleviation under previous government

¶3. (SBU) Officials and representatives of President Pervez Musharraf's government frequently cite poverty alleviation as one of the President's most successful economic legacies. However, economic analysts dispute GOP findings on the issue. The most recent comprehensive poverty estimates date to the 2004-05 time period. Separate calculations by the World Bank and the GOP both point to decreasing levels of absolute poverty, although at differing rates. The GOP's Federal Bureau of Statistics estimates that the percentage of Pakistanis living below the poverty line decreased from 34.46 percent in 2000-01 to 23.94 percent in 2004-05.

Differences between World Bank and GOP numbers

¶4. (SBU) During the same period, urban poverty declined by 34 percent and rural poverty by 28 percent. According to GOP estimates, 36.45 million Pakistanis lived below the poverty line in ¶2005. World Bank data analysis also indicated a decrease in absolute poverty, dropping from 34.46 percent of the population living below the poverty line in 2000-01 to 29 percent in 2004-05, less of a decline than the GOP's estimate of 23.94 percent. The GOP currently has no plans to examine more recent data on poverty levels this year.

¶5. (SBU) Dr. A.R. Kemal, former Director of the Pakistan Institute of Development Economics, cites the use of differing consumer price indices as one reason for the discrepancy between GOP and World Bank estimates. The GOP's Federal Bureau of Statistics used a primarily urban price-based consumer price index (CPI) to adjust the poverty line for inflation. Dr. Kemal believes that the use of an urban price-based CPI cannot be applied to rural areas due to differences in consumption patterns and price differentials. The World Bank, on the other hand, constructed its own CPI, incorporating the prices for goods in rural areas. World Bank estimates show that absolute national poverty declined by only five percent versus the GOP's estimate of over ten percent.

¶6. (SBU) The GOP set the poverty line for the 2000-05 period at Rs 878.64 (USD 14.9) of personal consumption per month. The GOP defines "extremely poor" as individuals whose monthly consumption is less than 50 percent of the poverty line, or below Rs 439 (roughly USD 7.44 at an average rupee/dollar exchange rate in the 2004-05 time period).

¶7. (SBU) Both GOP and World Bank poverty researchers concede that the use of 2000-01 as a base year, which incidentally was also a drought year, led to an overestimation of the poverty decline. World Bank Senior Economist Kasper Richter considers that because 70 percent of Pakistan's population lives in rural areas, the use of 2000-01 as a base year overestimates the decline in poverty. 43.37 percent of Pakistanis work in the agriculture, forestry and fishing sectors and are particularly vulnerable to changes in agricultural production rates. Much of Pakistan experienced drought-like conditions in 2000-01, increasing the number of Pakistanis technically considered below the poverty line. Richter also observed that if 1998-99 was used as a base year instead of 2000-01, poverty would not have decreased as much as the GOP estimates.

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¶8. (SBU) Former Director of the Pakistan Institute of Development Economics Dr. A.R. Kemal also remains skeptical of official poverty reduction figures, citing different sampling methods used in 2000-01 and 2004-05 as a cause for concern. He believes that data was not taken randomly and that the Federal Bureau of Statistics was not transparent in its calculations, despite repeated requests from NGOs to clarify data analysis procedures. Many analysts estimate that around fifty percent of Pakistan's population is clustered around the poverty line; even a small decline in monthly income would push the majority of this group below the poverty line. A threshold of 2350 calories has been set as the minimum nutritional requirement; in Pakistan, cereals account for 50 percent of this requirement.

Increased remittances decrease poverty

¶9. (SBU) From 2001 until today, remittances increased dramatically, rising an average of over 40 percent per year to USD 5.49 billion in 2006-2007. While some of this increase was remittances being captured in the formal banking system, most experts consider that they increased dramatically during this period, playing a pivotal part in poverty reduction. Studies in Pakistan show a statistically significant correlation between remittance levels and the overall decline in poverty. Where government poverty alleviation programs provide indirect support to Pakistan's poor, remittances serve as direct budgetary support to recipients.

Women at greater risk

¶10. (SBU) Women and children are most vulnerable to falling below the poverty line. Pakistan ranks relatively low in the UN's Gender Development Index, scoring 0.468 versus 0.545 for India and 0.664 for Indonesia. The World Economic Forum's 2007 Global Gender Gap report scores Pakistan 126 out of 128 countries. Roughly half of all women perform work unpaid in the home. Of the women that do work outside of the home, 97.2 percent work in the low-income informal sector, concentrated in the agriculture, light manufacturing and domestic services sectors. Young women continue

to be at a disadvantage in access to education; only 20 percent of low-income women complete school up to the fifth grade.

Comment

¶11. (SBU) Comment: While World Bank poverty reduction estimates are probably more valid, both institutions indicate that poverty declined in the 2000-01 to 2004-05 period. The choice of 2000-01 as a base year likely overestimated poverty reduction, a fact that both sides agree on. The decline in poverty should come as little surprise as the country benefited from sound macroeconomic policies, high rates of sustained growth, continued investment inflows, world economic conditions generally favorable to developing countries in the 2001-2005 period, increased foreign assistance and investment inflows and a dramatic rise in worker remittances. End Comment.

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